The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 6, 1981 VOLUME XVIII, NUMBER 14

Slack In The Housing Market . . .

One of the areas most seriously affected by current economic and financial market conditions is the housing sector. With mortgage interest rates well above 15 per cent in most areas of the country, new home prices at extremely lofty levels and Federal government housing assistance being scaled back by the Reagan Administration, it is hardly surprising that new housing starts nose dived 25 per cent in February compared with month-earlier levels. What is more, new building permits issued—a harbinger of future new start trends—dropped almost seven per cent in February, month-over-month, to a seasonally adjusted 1.1 million-unit annual rate. This key barometer of future developments has now declined during four of the past five months. As a result, the number of permits issued in February stood 27 per cent below the September, 1980 level.

Nor is the housing situation much better once new homes are completed and brought to market. With the median price of new homes sold standing at over $67,000 in February and average commitment rates on new conventional mortgages at almost 15.40 per cent, new (and existing) home sales have plummeted. In February, new single-family homes were sold at a seasonally-adjusted annual rate of 487,000 units, 5.3 per cent below January levels, the fifth monthly decline in the past seven months. New home sales have, in fact, been ratcheting downward since last summer and, in February, stood more than 20 per cent below their July, 1980 level.

Sales of existing homes have also plummeted, reflecting the adverse impact of the same factors. Existing homes were sold at a seasonally-adjusted 2.56 million-unit annual rate in February, 0.8 per cent below their month-earlier level. This marked the fifth consecutive monthly drop in sales of existing homes, which now stand 15 per cent below their year-ago levels and more than 20 per cent below their late summer high.

. . . Will Dampen Mortgage Demand . . .

Put simply, the ever-escalating cost of existing homes (the median sales price reached $64,500 in January, up 11 per cent year-over-year), together with high mortgage interest rates, have priced an ever-expanding segment of the population out of the housing market. Even with a down payment in excess of 20 per cent on the median-priced home, principal and interest payments during the year on a 30-year, $50,000 conventional mortgage contracted at 15.50 per cent would absorb more than 40 per cent of the gross median family income ($18,650 in 1980). This level is well above the traditionally prudent, rule-of-thumb threshold of 25 per cent and would, of course, soar even higher when property taxes and insurance costs are included.

Thus, with the median-priced existing home (not to mention the median-priced new home) increasingly beyond the financial reach of the median-income household, housing starts and purchases have fallen sharply. These factors, together with the sluggish growth of deposit inflows at the nation's thrift institutions will probably ensure that both demand- and supply-side factors will tend to curb mortgage activity in coming months. Already, new mortgage commitments at savings and loan associations have weakened substantially, totaling in February, almost 30 per cent less than year-earlier levels.

. . . But Not Interest Rates

The sagging of mortgage credit demands has, in turn, heightened speculation that the financial markets may be better able to accommodate this year's massive Federal government borrowing requirements, without significant upward pressures on interest rates. The facts, however, indicate otherwise.

It is possible, of course, that thrift institutions may redirect their deposit flows away from stagnant mortgage lending windows, toward the acquisition of high yielding, short-term financial assets. This process has, in fact, already been occurring with a beneficial effect on the liquidity ratios of many thrift institutions, but with a less-than-noticeable effect in dampening upward interest rate pressures. For despite a massive 40 per cent drop in the value of new mortgage commitments authorized since 1978, interest rates have continued to soar. The average prime rate has risen from 10.80 per cent in the fourth quarter of 1978 to approximately 16.75 per cent in the fourth quarter of 1980, and averaged more than 20 per cent in January, 1981.

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What is more, the Federal deficit to be accommodated has ballooned. If current trends persist, the red ink total in the current fiscal year could reach almost $87 billion, just about equal to the total deficit of the two preceding fiscal years combined. To this total, must be added the ever-growing financing requirements of the off-budget and federally-sponsored agencies. As a result, slack in the mortgage market will be offset by a rising tide of Federal debt, still ensuring that a renewed interest rate upturn later this year remains a distinct possibility.

Factory Shipments And New Orders Weaken

Weakness has also spread beyond the housing sector. New orders for, and shipments of, manufactured products fell in February month-over-month, for the first time since last summer. Most of the declines were concentrated among the nondurable goods producing industries such as petroleum, chemicals and food. However, producers of durables continued to post increases, albeit slight. The largest gain was registered by the primary and fabricated metals producers, in general, and the steel industry, in particular.

As a result of declining demand for nondurable goods, inventories rose by 1.1 per cent in February. Unlike January, nondurable goods manufacturers showed a larger increase than durable goods producers, although they normally represent only about

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/25/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.460	+ .016	+ 2.203
Loans to Depository Inst.	.888	+ .114	− 1.771
Float	2.783	− .479	− 1.589
Total Reserve Bank Credit	141.392	− .165	+ 4.211
Treasury Deposits with Federal Reserve Banks	3.242	+ .111	− .001
Currency Outside Banks	120.273	+ .272	+ 8.018
Member Bank Reserves:			
Required	39.464	− .027	− 3.527
Excess (Deficiency)	.107	− .236	+ .126
Total Reserves Held	39.571	− .263	− 3.401
Net Borrowed Reserves	.581	+ .343	− 1.923
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	98.309	+ .360	+21.911

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	363.3	− 22.1‡	− 2.2‡
M-1B	420.6	+ 7.5‡	+ 7.5‡
M-2 (February '81)	1,692.0	+ 5.2	+ 9.3
L (December '80)	2,372.0	+ 11.9	+ 10.2

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four week moving average.

New York Money Market

Offering Rates 4/3/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.70%	12.30%	12.00%
* Federal Agencies	12.90	12.90	13.00
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	12.04	N.A.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.38	13.25	

‡ Finance Company Paper—Prime

5- 29 days	14.00%
30- 59 days	13.00
60- 89 days	12.50
90-270 days	12.38

‡* Bankers' Acceptances

May	13.80%
Jun.	13.60
Jul.	13.50
Aug.	13.40
Sep.	13.25
Oct.	13.15

‡ Industrial Paper—Prime

30- 89 days	13.75%
90-120 days	13.63

† Federal Funds Effective Rate 15.75%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th	Q '80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th	Q '80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th	Q '80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Feb	'81	12.0%	8.4%	15.6%
Change in Producer Prices*	Mar	'81n	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons) †	Mar	'81n	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force †	Mar	'81n	7.3%	7.3%	6.3%
Personal Income*	Feb	'81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100) †	Feb	'81	136.3	136.7	134.1
Industrial Production Index (1967=100) †	Feb	'81	150.8	151.5	152.6
Net Change in Consumer Installment Credit †	Jan	'81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance †	Feb	'81n	−$ 2.16	−$ 4.37	−$ 4.79
Plant and Equipment Expenditures*	2nd	Q '81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb	'81	1,218	1,615	1,273
New Construction Expenditures*	Feb	'81n	$ 252.5	$ 261.9	$ 248.7
Total Business Inventories †	Jan	'81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales †	Jan	'81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a Anticipated.

34 per cent. However, more than one third of the rise in nondurable inventories was accounted for by the petroleum and coal industries. By contrast, stocks of these products normally make up only a little more than 10 per cent of total nondurable factory inventories. In the case of coal, there was a substantial buildup in stocks in anticipation of contract negotiations which have led to the current strike. Inventories of petroleum have risen sharply as demand has slackened.

Stocks of gasoline are currently at record levels and supplies of other refined products and crude oil are bulging. This has taken place despite the oil industries' drastic cut in operating capacity to 68.7 per cent, which is probably the lowest level in recent memory. Last year at this time capacity utilization was 78.2 per cent. Many of the major oil companies have been forced to shut down some of their refineries, to eliminate at least partially, the glut of oil on the market.

The growing supplies of oil in the face of slackening demand may result in some good news for consumers on the inflation front. More and more producers have been forced to cut wholesale prices to dealers, who may eventually pass them on to the consumers. But even if the cuts do not result in lower pump prices, they may at least put an end to the price spiral which has resulted from the most recent round of OPEC price hikes and crude oil price decontrol. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/18/81)	113,452	+ 1,244	+18,799
New York City (3/18/81)	27,581	+ 629	+ 7,079
Commercial Paper (3/19/81)	133,192	+ 716	+12,578

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (3/18/81)	169,571	+ 635	+ 7,217
New York City (3/18/81)	49,674	+ 255	+ 2,014

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/81)	423,449	+ 2,389	+20,250
New York City (3/18/81)	99,538	+ 1,416	+ 3,355

Financial Markets

	Friday 4/3/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.88%	– .19	– 2.81
180-Day Bills†	12.46	– .21	– 3.69
Longest Bills	12.04	– .13	– 3.77
Recent Issues:			
12⅝s 3/31/83 (When Issued)	13.56	N.A.	
13⅜s 3/31/85 (When Issued)	13.60	N.A.	
13s 11/15/90	13.40	+ .17	
12¾s 11/15/10	12.92	– 1.03	
Municipals:			
Bond Buyer–20 Bond Index* (4/2/81)	10.21%	+ .12	+ .77
Blue List Total ($ Million)	$ 922	+ $ 32	+ $ 522
30-Day Visible Supply ($ Million)	$2,744	+ $ 29	+ $1,832
Total	$3,666	+ $ 61	+ $2,354
Corporates:			
Moody's Aa Composite (4/2/81)	13.87%	– .03	+ .13
Money Mgr.–30-Day Supply ($ Million)	$4,709	+ $571	+ $3,449
Stocks:			
Dow-Jones Averages:			
Industrials	1,007.11	+ 12.33	+ 222.98
Transportation	438.71	+ 8.42	+ 189.54
Utilities	109.46	+ 1.93	+ 7.43
65 Stocks	392.04	+ 6.02	+ 78.20
Standard and Poor's 500 Stocks	135.49	+ .84	+ 33.34
N.Y.S.E. Composite Index	78.14	+ .55	+ 20.19
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,188	– 9,480	+ 15,315

* 46% Taxable equivalent 18.91%.

† Bond equivalent.

International Rates

	Friday 4/3/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.63%	15.13%
1 month	14.63	15.00
3 month	14.75	15.13
6 month	14.50	15.25
1 year	14.50	15.06
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.70%	14.30%
Long Term (7 to 15 yrs.)	13.90	14.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/3/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02867	34.88
Canada	.8449	1.1835
Denmark	.1492	6.7025
France	.1990	5.0250
Germany	.4693	2.1280
Italy	.0009425	1061.00
Japan	.004682	213.60
Mexico	.04203	23.79
Netherlands	.4239	2.3590
Switzerland	.5147	1.9430
U.K.	2.2100	.4525

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